

## Message Text

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PAGE 01 ISTANB 03983 150846Z

17-12

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TAGS: BEXP, TU

SUBJ: LICENSING AGREEMENTS IN TURKEY: FIRESTONE INQUIRY

REFS: (A) STATE 236997; (B) ISTANBUL 869

1. ORIGINAL DECREES COVERING INVESTMENTS BY FOREIGN FIRMS  
IN TIRE INDUSTRY IN TURKEY PROVIDED TECHNICAL SERVICES FEE OF TWO  
PERCENT WITH NO TIME LIMITATION. AS NOTED REF B, GOT LATER  
UNILATERALLY IMPOSED BOTH TIME LIMIT (RIGHT TO REMIT TECHNICAL  
SERVICE FEE WILL EXPIRE IN 1980) AND DECLINING RATE AT WHICH  
SERVICE FEE WOULD BE CALCULATED BASED ON SALES (2 PERCENT ON SALES UP  
TO TL 100 MILLION; 1.5 PERCENT FROM TL 100 TO 300 MILLION; 1 PER  
CENT FROM TL 300 TO 500 MILLION; AND 0.5 PERCENT OVER TL 500 MILLION).

2. IN 1973 TWO FOREIGN INVESTMENTS WERE APPROVED BY  
GOT IN AUTOMOTIVE INDUSTRY. ANADOLU ENDUSTRI INVESTMENT  
AGREEMENT WITH JAPANESE NISSAN AND MITSUI (FOREIGN COMPANIES  
HOLD 40 PERCENT EQUITY) TO PRODUCE VANS, PICK-UPS AND PANEL TRUCKS  
ACCORDS FLAT FEE \$500,000 TO COVER TECHNICAL AND ENGINEERING  
SERVICES. IN ADDITION, AFTER LOCAL CONTENT RATIO EXCEEDS 50 PERCENT,  
FOREIGN SHAREHOLDERS ENTITLED TO ROYALTY PAYMENTS AS FOLLOWS:  
0.9 PERCENT UP TO 3000 VEHICLES; 0.6 FROM 3000 TO 20,000 AND  
0.3 FROM 20,000 TO 40,000. BASE FOR CALCULATING ROYALTY FEE WILL  
BE FACTORY SALE PRICE MINUS LANDED VALUE OF IMPORTED COMPONENTS  
INCLUDING CUSTOMS TAXES. AGREEMENT ALSO PROVIDES FOR REVISION  
OF ROYALTY FEE PAYMENTS AFTER 15 YEARS.

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3. IN INVESTMENT TO PRODUCE 15,000 TRACTORS (SIMILAR TRACTORS ALREADY BEING PRODUCED IN TURKEY UNDER FORD LICENSE) IN WHICH FORD MOTOR COMPANY HAS 32 PERCENT HOLDING, PATENT AND TECHNICAL ASSISTANCE FEES LIMITED TO 10-YEAR PERIOD. AFTER LOCAL CONTENT RATIOS REACH SPECIFIED LEVEL, FEES BASED ON FACTORY PRICE MINUS COST OF TIRES AND ACCUMULATORS AND LANDED COST OF IMPORTED COMPONENTS ARE AS FOLLOWS: 0.9 PERCENT UP TO 7,500 TRACTORS; 0.5 PERCENT ON 7,500 TO 15,000; AND 0.1 PERCENT ON 15,000 AND ABOVE.

4. WE HAVE BEEN TOLD THAT IN RECENT UNDERTAKING BETWEEN FOREIGN AND LOCAL COMPANY IN WHICH THERE WOULD BE NO FOREIGN EQUITY, AGREEMENT PROVIDES FLAT KNOW-HOW FEE OF \$500,000 AND TECHNICAL SERVICES FEE FOR TEN-YEAR PERIOD. TECHNICAL SERVICES FEE CALCULATED TO INCREASE GRADUALLY OVER FOUR YEAR PERIOD AS PRODUCTION BUILDS UP AND THEN LEVEL OFF FOR REMAINING YEARS. WE HAVE NOT BEEN ABLE TO DETERMINE HOW FEE WAS CALCULATED, BUT ACCORDING TO ONE SOURCE IT IS NOT DIRECTLY RELATED TO SALES OR QUANTITY OF PRODUCTION. SOURCE ALSO INDICATED THAT GOT PUSHED HARD TO LIMIT AGREEMENT TO FIVE YEARS BUT FOREIGN FIRM SAID IT NOT INTERESTED UNLESS FULL TEN-YEAR PERIOD APPROVED. LOCAL TURKISH COMPANY ANTICIPATES GOT APPROVAL AGREEMENT AND HAS PURCHASED LAND AND BEGUN CONSTRUCTION.

5. BASED ON RECENT EVIDENCE, IT APPEARS THAT GOT TAKING EVEN HARDER LINE THAN PREVIOUSLY REPORTED ON LEVEL OF PAYMENTS FOR LICENSING AGREEMENTS. NONETHELESS EACH AGREEMENT NEGOTIATED ON AD HOC BASIS AND AMOUNT GOT WILLING TO GIVE DIRECTLY RELATED TO HOW IMPORTANT PROJECT OR TECHNOLOGY IS TO TURKEY'S DEVELOPMENT. MACE

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